

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System Operator, Inc.)

Docket No. AD14-6-000

**REPLY COMMENTS OF
THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.**

In accordance with the Commission’s January 28, 2014 *Notice of Technical Conference*, the New York Independent System Operator, Inc. (“NYISO”) respectfully submits these reply comments.

As discussed below, these reply comments address certain aspects of the comments filed by the independent Market Monitoring Unit (“MMU”),¹ Central Hudson Gas & Electric Corporation (“Central Hudson”),² Multiple Intervenors,³ and the Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. (“Con Edison”).⁴ The NYISO agrees with many elements of MMU Comments but has certain reservations, including with respect to the MMU’s proposed tariff filing deadline. In particular, the NYISO agrees with the MMU that it would be overly simplistic and conceptually unsound to attempt to incorporate export constraint limits into the NYISO’s probabilistic approach to calculating the Locational Minimum Installed Capacity Requirements⁵ (“LCRs”).

¹ *Post-technical Conference Comments of Potomac Economics LTD., New York ISO Market Monitoring Unit* (filed March 27, 2014).

² *Post-Technical Conference Comments of Central Hudson Gas & Electric Corporation* (filed March 26, 2014).

³ *Post-Technical Conference Comments of Multiple Intervenors* (filed March 26, 2014).

⁴ *Comments of Consolidated Edison Company of New York Inc. and Orange and Rockland Utilities, Inc. on the FERC Technical Conference on Load Zone K* (filed March 26, 2014).

⁵ Capitalized terms that are not otherwise defined in this filing shall have the meaning specified in the NYISO’s Market Administration and Control Area Services Tariff (“Services Tariff”).

The NYISO believes that all of the proposed market changes suggested in this proceeding would best be addressed through the stakeholder process that the NYISO asked the Commission to endorse in its Initial Comments.⁶ The variations among the comments filed in this proceeding, and the potentially significant implications of the various proposals, clearly suggest the need for a thorough stakeholder evaluation outside the context of a formal Commission proceeding.⁷ Likewise, the stakeholder process would provide an opportunity to review variations of the proposals, and additional proposals that have not yet emerged. The Commission should therefore not take any further action in this proceeding until after the NYISO stakeholder process is complete.

I. The NYISO Agrees that the MMU’s Suggested Market Design Revisions Merit Further Exploration but the MMU’s Proposed June 1, 2015 Tariff Filing Deadline Is Impracticable, and it Would be Premature to Commit to Implementing Any Such Revisions

The MMU Comments agree with the NYISO’s position that Load Zone K should not be included in the same zone as the G-J Locality under the NYISO’s current capacity market design.⁸ The MMU emphasized, as the NYISO has, that imposing “simple” export limits would not be appropriate given the probabilistic nature of that design.⁹ No party in this proceeding has indicated that such a change would be appropriate.

The MMU also recommended that the Commission direct the NYISO to pursue evolutionary changes to further enhance its capacity market design. Specifically, the MMU

⁶ *Post-Technical Conference Comments of the New York Independent System Operator, Inc.* at 3-5 (filed March 26, 2014) (“NYISO Initial Comments”).

⁷ The fact that the NYISO is not addressing every facet of all of the post-technical conference comments should not be interpreted as agreement with, or acquiescence to, them.

⁸ MMU Comments at 2. *See* New York Independent System Operator, Inc., *Proposed Tariff Revisions to Establish and Recognize a New Capacity Zone and Request for Action on Pending Compliance Filing*, Docket No. ER13-1380-000 (filed April 30, 2013).

⁹ MMU Comments at 10.

recommended that the NYISO address four “interrelated issues” that derive from

recommendations made in its most recent State of the Market Report for the NYISO:¹⁰

- “An improved methodology for modeling deliverability constraints and calculating LCRs to more accurately reflect the reliability value of capacity resources located in different areas.
- Associated revisions to the current deliverability testing and facility upgrade requirements.
- A mechanism to identify deliverability constraints that warrant the pre-definition of additional capacity zones or interfaces that will bind as supply and demand conditions dictate. This will eliminate the current cumbersome and inefficient process of creating new capacity zones.
- Depending on the market framework developed, it may be beneficial for NYISO to develop capacity deliverability rights. These are financial rights analogous to the Transmission Congestion Contracts (or “TCCs”) defined in NYISO’s energy market. The existence of these rights together with the exiting TCCs would provide incentives to build transmission to address NYISO’s locational planning needs.”¹¹

There is significant overlap between the MMU proposals and the potential market enhancement on which the NYISO Initial Comments focused; *i.e.*, the examination of rules to pre-determine capacity zones that would bind, and to eliminate zones, as market conditions dictate.¹² The NYISO is prepared to explore the MMU proposals, as well as others, through the

¹⁰ In its *State of the Market Report* for 2012, which is the most recent annual MMU report published as of the date of this filing, the MMU recommended that the NYISO:

“Create a dynamic and efficient framework for reflecting locational planning requirements, including three key aspects:

- a) Pre-define interfaces/zones that address potential resource adequacy needs and highway deliverability constraints to allow prices to reflect the value of capacity in each zone;
- b) Grant internal capacity deliverability rights between zones when private investors upgrade transmission into a local area;
- c) Modify Local Capacity Requirement methodology to minimize the cost of satisfying planning requirements.”

The *2012 State of the Market Report for the New York ISO Markets* is available at http://www.nyiso.com/public/webdocs/markets_operations/documents/Studies_and_Reports/Reports/Market_Monitoring_Unit_Reports/2012/NYISO2012StateofMarketReport.pdf.

¹¹ MMU Comments at 11.

¹² NYISO Initial Comments at 4.

stakeholder process.¹³ Nevertheless, it is essential that all such proposals be vetted by stakeholders and carefully evaluated from both a market design and system planning perspective. It is already apparent that there are technical issues with some of the MMU's proposals that may require modification.¹⁴ Some parts of the MMU's proposals, particularly the fourth point involving the creation of a new regime of financial rights, go beyond what the NYISO has previously considered. Additional issues will undoubtedly be identified, and could be evaluated and addressed, in the stakeholder process.

As a practical matter, the MMU's conceptual proposals would necessitate substantive and sweeping changes to NYISO tariffs, rules, procedures, and software. This is especially true with respect to the MMU's fourth point concerning the possible creation of a new regime of financial rights. The MMU Comments agreed "that substantial time is needed to engage the stakeholders and research alternatives for addressing these needs."¹⁵ Nevertheless, the MMU recommended that the NYISO be directed to file compliance tariff revisions by June 1, 2015 in order to implement the MMU's proposals, instead of submitting a report by that date as the NYISO Initial Comments proposed.¹⁶ The NYISO does not believe that such a June 1, 2015 filing deadline is realistic.

Moreover, the Commission should not pre-judge the outcome of the stakeholder process. The NYISO is only beginning to gain experience regarding the new G-J Locality that could

¹³ *Id.*

¹⁴ For example, the NYISO believes the MMU's proposed "Benefit Ratio" methodology may be flawed. MMU Comments at 7-8. As proposed, the Benefit Ratio reflects the comparative reliability benefits of capacity in each region as measured by the NYISO's Loss of Load Expectation ("LOLE") model. The NYISO believes that the method would, at a minimum need to be adjusted, to account for the origination of the measurement of that LOLE benefit.

¹⁵ MMU Comments at 11.

¹⁶ *Id.*

inform the design of new rules. There could be potentially significant market and system reliability implications of adopting a given proposal. Choosing a proposal based on incomplete information could have adverse consequences, including introducing significant uncertainty for Market Participants and developers. It would therefore be premature for the Commission to set a June 1, 2015 deadline for filing tariff revisions that contain specific proposals (whether originating with the MMU or others.)

As stated in the NYISO Initial Comments, the Commission should instead require the NYISO to file a report by that date. Such a report could realistically be expected to describe at least the status of the evaluation of conceptual market design changes, and to the extent complete, the identified design change, developed with stakeholders. However, by June 1, 2015, it would be unlikely to contain one or more complete market design enhancements that adequately consider implementation issues and an implementation timeline. The NYISO does agree with the MMU that if the stakeholder process demonstrates that market design changes are warranted, then those changes should be effectuated in a timely manner. The NYISO would not oppose a Commission order, in response to a June 1, 2015 report or a subsequent status report proposing a design, directing it to make subsequent tariff compliance filings provided that they were on a practicable timetable.

Even if the Commission were to decide to order the NYISO to adopt the MMU's conceptual proposals at this time, as the MMU has acknowledged, those proposals require further development.¹⁷ In order to develop tariff language to incorporate these new market concepts, the NYISO would need to determine their implications and address them all, including implementation issues. It will take time to evaluate the implications of the proposals so that the

¹⁷ MMU Comments at 11-12.

details of the new market rules, and other potentially necessary revisions to existing rules, could be made concurrently. The software changes associated with the MMU's proposals would require significant additions to existing software platforms and the creation of new ones.

For example, pre-defining capacity zones would require significant evaluation of the criteria to be used and entail extensive substantive technical analysis.¹⁸ Granting internal capacity deliverability rights between Load Zones would involve the creation of financial rights in the capacity market (akin to Transmission Congestion Contracts in the energy market) - a brand new market product that would need a complete new supporting software platform of its own. Modifying the LCR methodology to minimize the cost of satisfying planning requirements would require further evaluation and validation of the economic and system planning principles underpinning the MMU recommendation because both sets of principles are intricately intertwined in the setting of LCRs. A modification of the LCR methodology would also need to be coordinated with the Installed Reserve Margin ("IRM") and the underlying methodology for determining it, which is under the purview of the New York State Reliability Council ("NYSRC").¹⁹ For the reasons stated above, all of these efforts would warrant careful vetting in the stakeholder process.

Another important consideration is that it would be imprudent, potentially disruptive, and possibly impracticable to try to implement major market design changes mid-way through the next triennial New Capacity Zone ("NCZ") and ICAP Demand Curve reset processes. Once new

¹⁸ The NYISO notes that this will be the case notwithstanding the fact that an evaluation of predefined zones, in conjunction with criteria for zone elimination, is an identified project in the NYISO 2014 business plan.

¹⁹ See Services Tariff Section 5.10 ("[t]he NYCA Minimum Installed Capacity Requirement is derived from the NYCA Installed Reserve Margin, which is established each year by the NYSRC.") See also, Services Tariff Section 5.11.4 ("[i]n establishing Locational Minimum Installed Capacity Requirements, the ISO will take into account ... the total NYCA Minimum Installed Capacity Requirement....")

market design concepts, and their implications, have been fully explored with stakeholders it will be necessary to realistically discuss the time frame in which a change identified as beneficial could actually be achieved in light of the timing of those processes.

II. It Would, at a Minimum, be Premature to Adopt Proposals for Load Zone K to be Added to the G-J Locality in the Next Triennial NCZ Cycle

Central Hudson and Multiple Intervenors ask the Commission to direct the NYISO to add Load Zone K to the G-J Locality for the next triennial NCZ proposal. The NYISO must commence work to prepare the next study of deliverability constraints that would identify the need for an NCZ prior to October 1, 2015, per the tariff.²⁰ For the reasons set forth below, as well as in the NYISO Initial Comments and the MMU Comments, the Commission should not issue such a directive. The record in this proceeding does not support such a mandate.

There is likewise nothing in the Central Hudson or Multiple Intervenors proposals, or elsewhere in the record, that would justify requiring at this time that the NYISO revise the existing tariff rules which establish a clear, transparent, and predictable process for studying and proposing NCZs.²¹ Given the MMU's recommendations, the NYISO believes that it and its stakeholders should be focused on exploring the enhancements to the existing capacity market design identified by the NYISO and the MMU, and in the stakeholder process, rather than on making conceptually flawed adjustments to the existing design. The NYISO's approach could result in different changes to existing tariff processes, or even to the elimination of those

²⁰ Pursuant to Services Tariff Section 5.16.1.2, "on or before October 1 of the year prior to an ICAP Demand Curve Reset Filing Year, the ISO will review the inputs and assumptions for the NCZ Study with stakeholders and provide an opportunity for stakeholders to comment. by October 1, 2015."

²¹ See Services Tariff Section 5.16.1. See also *New York Independent System Operator, Inc.*, 140 FERC ¶ 61,160 at 50 (2012) (finding the methodology for the NCZ Study "provides for sufficient transparency" by including stakeholder) and *Answer to Comments and Request for Leave to Answer and Answer to Protests of the New York Independent System Operator, Inc.* at 8 (filed 12/13/2011).

processes in favor of alternative rules (such as a system of predefined capacity zones,) that would render unnecessary the Multiple Intervenors and Central Hudson proposals.

In any event, even if the kinds of changes considered are found to be impracticable, or unimplementable in time for the triennial NCZ or DCR process, the Central Hudson and Multiple Intervenor proposals to include Load Zone K should be considered as part of the evaluation already provided for under the Services Tariff.²²

III. Other Issues

Con Edison proposed that the NYISO be directed to consider a “two-step” analysis as part of its existing “fungibility test.” Under Con Edison’s proposal, “rather than relocating resources (*i.e.*, removing and reapplying resources simultaneously)” the NYISO would instead “first remove the resources from Zones G, H and I (‘Lower Hudson Valley’ or ‘LHV’) and see how this impacts the NYCA LOLE and then, in a separate step, reapply the resources to Zone K.”²³

There is no need for the Commission to require the NYISO to take these steps. Section 5.16.2 of the Services Tariff, which governs the identification of NCZ boundaries, already allows the NYISO to accommodate Con Edison’s proposed approach. In any case, Con Edison’s proposal needs further evaluation and the NYISO is willing to consider it in the context of the proposed process identified in the NYISO Initial Comments, or in the NCZ process.²⁴ As Con Edison has noted, the stakeholder process is also the appropriate venue for considering its

²² See Services Tariff Section 5.16.1 (establishing the NCZ Study methodology).

²³ Con Edison Comments at 7.

²⁴ In fact, Con Edison’s “two step” proposal supports the NYISO’s finding that 1,000 MW is not fungible between Zones G-J and Zone K. The “two step” process first removes 1,000 MW from G-J, which results in violation of the LOLE criterion, and then puts the 1000MW into Zone K, which still leaves the system in violation of the LOLE criterion. Next, the “two step” process concludes that that 300 MW is fungible because it maintains the LOLE criterion. This demonstrates that Zone K is export constrained by various transmission limitations.

proposal that more specific criteria to govern the boundaries of NCZs be added to the Services Tariff.²⁵

Central Hudson repeats its suggestion from Docket No. ER13-1380-000 that the NYISO should completely revise the manner in which it determines LCRs to rely on a deliverability based methodology.²⁶ The NYISO has already responded to that suggestion and will therefore confine itself to referencing that answer here.²⁷ The NYISO acknowledges that the issues identified during the course of the technical conference and the MMU's suggestions do intersect with the LCR setting process. However, as the NYISO said in its Initial Comments, any revision to that process would also need to consider the fact that the NYSRC sets the IRM, and the LCRs are used to set the locational requirement in order to satisfy the IRM. Thus, any consideration of Central Hudson's suggested change could be considered in the context of the NYISO's proposed process described above.

²⁵ Con Edison Comments at 5-6.

²⁶ See John J. Borchert Affidavit at PP 16- 22 (submitted in Docket No. ER13-1380 and attached to the Central Hudson Comments).

²⁷ See, e.g. *Answer to Comments and Request for Leave to Answer and Answer to Protests of the New York Independent System Operator, Inc. at 13-18 and Answering Affidavit of Henry Chao, Ph.D., and John M. Adams and Answering Affidavit of David B. Patton*, Docket No. Er13-1380 (filed June 5, 2013).

IV. Conclusion

For the reasons specified above the Commission should take the approach proposed in the NYISO Initial Comments in this proceeding and decline to take any further action at this time.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Rules of Practice and Procedure, 18 C.F.R. §385.2010.

Dated at Rensselaer, NY this 16th day of April, 2014.

/s/ Joy A. Zimmerlin

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